

**REPORT OF THE AUDIT OF THE
LINCOLN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2004**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ronald W. Gilbert, Lincoln County Judge/Executive
Honorable Shelby Lakes, Lincoln County Sheriff
Members of the Lincoln County Fiscal Court

The enclosed report prepared by Moore Stephens Potter, LLP, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Lincoln County, Kentucky, for the year ended December 31, 2004.

We engaged Moore Stephens Potter, LLP to perform the audit of this statement. We worked closely with the firm during our report review process; Moore Stephens Potter, LLP evaluated the Lincoln County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LINCOLN COUNTY SHERIFF

**For The Year Ended
December 31, 2004**

Moore Stephens Potter, LLP has completed the Lincoln County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees due to the Fiscal Court decreased by \$4,587 from the prior year, resulting in excess fees due to the Fiscal Court of \$120 as of December 31, 2004. Revenues increased by \$64,361 (\$16,361 plus the \$48,000 State advancement in error) from the prior year and expenditures increased by \$68,948 (\$20,948 plus the repayment of the additional State advancement).

Report Comments:

- The Sheriff Should Present A Final Settlement To The Fiscal Court
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Statement Filed Listing Property Seized - Investigation Of Utilization Of Proceeds
- The Sheriff Should Stay Within His Approved Budget For Expenditures
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

On November 8, 2004, the County Sheriff's deposits were uninsured and uncollateralized in the amount of \$300,208.

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MOORE STEPHENS POTTER LLP

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS ADVISORS

The Honorable Ronald W. Gilbert, Lincoln County Judge/Executive
Honorable Shelby Lakes, Lincoln County Sheriff
Members of the Lincoln County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Lincoln County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 10, 2005, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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Members in principal cities throughout the world*

The Honorable Ronald W. Gilbert, Lincoln County Judge/Executive
Honorable Shelby Lakes, Lincoln County Sheriff
Members of the Lincoln County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Present A Final Settlement To The Fiscal Court
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Statement Filed Listing Property Seized - Investigation Of Utilization Of Proceeds
- The Sheriff Should Stay Within His Approved Budget For Expenditures
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Lincoln County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Moore Stephens Potter, LLP". The signature is written in a cursive, flowing style.

Moore Stephens Potter, LLP

Audit fieldwork completed -
June 10, 2005



LINCOLN COUNTY
SHELBY LAKES, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State - Kentucky Law Enforcement Foundation Program Fund		\$ 22,080
State Fees For Services -		
Finance and Administration Cabinet	\$ 5,391	
Cabinet For Human Resources	<u>44,324</u>	49,715
Circuit Court Clerk -		
Sheriff Security Service	16,644	
Fines and Fees Collected	5,615	
Court Ordered Payments	<u>7,195</u>	29,454
Fiscal Court		65,473
County Clerk - Delinquent Taxes		2,232
Commission on Taxes Collected		157,582
Fees Collected For Services -		
Auto Inspections	5,095	
Accident and Police Reports	538	
Serving Papers	14,370	
Carrying Concealed Deadly Weapon Permits	<u>3,400</u>	23,403
Other -		
Tax Collection Fees	24,102	
Miscellaneous	<u>17,176</u>	41,278
Interest Earned		1,735
Borrowed Money -		
State Advancement		<u>158,000</u>
Total Revenues		\$ 550,952

The accompanying notes are an integral part of this financial statement.

LINCOLN COUNTY
 SHELBY LAKES, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures

Operating Expenditures:

Personnel Services -

Deputies' Salaries	\$ 174,958	
Court Security Salaries	42,410	
Other Salaries	25,113	
Kentucky Law Enforcement Foundation Program Fund	<u>19,927</u>	\$ 262,408

Employee Benefits -

Employer's Share Retirement		1,480
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Materials and Supplies -

Office Materials and Supplies	6,495	
Uniforms	<u>1,122</u>	7,617

Auto Expense -

Gasoline	10,896	
Maintenance and Repairs	6,659	
Lease Payments	<u>18,249</u>	35,804

Other Charges -

Postage	5,060	
Carrying Concealed Deadly Weapon Permits	1,870	
Lincoln County Ordinance	7,195	
Miscellaneous	<u>260</u>	14,385

Debt Service:

State Advancement		<u>158,000</u>
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Total Expenditures

479,694

Net Revenues

71,258

Less: Statutory Maximum

(69,592)

Excess Fees

1,666

Less: Training Incentive Benefit

(1,546)

Balance Due Fiscal Court at Completion of Audit

\$ 120

The accompanying notes are an integral part of this financial statement.

LINCOLN COUNTY
SHELBY LAKES, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the Fiscal Court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the Fiscal Court at the time he files his final settlement with the Fiscal Court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the Fiscal Court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LINCOLN COUNTY
 SHELBY LAKES, COUNTY SHERIFF
 NOTES TO FINANCIAL STATEMENT
 December 31, 2004
 (Continued)

Note 2. Employee Retirement System

The County officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The County's contribution rate for nonhazardous employees was 7.34 percent for the first six months of the year and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

In order to be valid against the Federal Deposit Insurance Corporation (FDIC) in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 8, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$300,208 of public funds uninsured and unsecured.

The County Sheriff's deposits are categorized below to give an indication of the level of risk assumed by the County Sheriff at November 8, 2004.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	3,000,000
Uncollateralized and uninsured	<u>300,208</u>
Total	<u><u>\$ 3,400,208</u></u>

LINCOLN COUNTY
SHELBY LAKES, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 4. Federal Forfeiture Account

Under the terms stipulated by the United States Department of Justice and the Commonwealth of Kentucky, the Sheriff's office has received proceeds emanated from the confiscation, surrender, or sale of real and personal property involved in drug related convictions involving Federal agents. These proceeds may be used for certain operating expenditures (excludes personnel services and employee benefits) of the Sheriff's office. The balance in the account as of January 1, 2004 was \$8,278. During 2004, receipts (including interest) and disbursements were \$2,007 and \$2,195, respectively. The balance in the account as of December 31, 2004 was \$8,090.

Note 5. Special Account

Under the terms stipulated by the Lincoln County Fiscal Court, the Sheriff's office has received proceeds emanated from the confiscation, surrender, or sale of real and personal property involved in drug related convictions not involving Federal agents. These proceeds may be used for certain operating expenditures (excludes personnel services and employee benefits) of the Sheriff's office. The balance in the account as of January 1, 2004 was \$2,993. During 2004, receipts (interest) and disbursements were \$6 and \$2,970, respectively. The balance in the account as of December 31, 2004 was \$29.

Note 6. Grants

During 2003, the Lincoln County Fiscal Court received two grants on behalf of the Sheriff's office. The first grant was under a Body Armor Program from the Department for Local Government in the amount of \$2,320. There were no funds expended during 2003 under this grant. Accordingly, at December 31, 2003, the unexpended balance was \$2,320. Additionally, there were no funds expended during 2004 under this grant. This grant expired in June 2004.

The second grant was under the COPS Universal Hiring Program from the U.S. Department of Justice in the amount of \$150,000. At January 1, 2004 the unexpended balance under this grant totaled \$100,003. Funds expended under this grant were \$42,613 during 2004, leaving an unexpended balance of \$57,390 at December 31, 2004.

Note 7. Leases

At January 1, 2004, the office of the Lincoln County Sheriff was committed under three lease agreements with Ford Motor Credit, Co. for vehicles for the Sheriff's Department. The lease agreements require total annual payments of \$18,249. Two of the three leases were paid in-full during 2004 (a total of \$12,065). The only outstanding lease at year end has one \$6,184 payment remaining. This last payment is due on July 5, 2005. Accordingly, the total remaining balance under the lease agreements was \$6,184 as of December 31, 2004.

The office of the Lincoln County Sheriff is committed under a lease agreement with Custom Solutions, Inc. for certain computer hardware. The lease agreement requires a monthly payment of \$270 for 36 months ending on September 1, 2005. The total remaining balance of the agreement was \$2,430 as of December 31, 2004. During 2004, payments under this lease were paid out of the Special Account.

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COMMENTS AND RECOMMENDATIONS

LINCOLN COUNTY
SHELBY LAKES, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The Sheriff Should Present A Final Settlement To The Fiscal Court

KRS 134.310(5) states:

“In counties containing a population of less than seventy thousand (70,000), the Sheriff shall file annually with his final settlement:

- (a) A complete statement of all funds received by his office for official services, showing separately the total income received by his office for services rendered, exclusive of his commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes; and
- (b) A complete statement of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses.”

As of June 10, 2005, the Sheriff had not presented a final settlement to the Fiscal Court. We recommend the Sheriff present a final settlement to the Fiscal Court in accordance with KRS 134.310(5).

Sheriff's Response: The final settlement has since been presented and approved.

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On November 8, 2004, \$300,208 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response: A verbal agreement with the bank should have permitted this. No loss of funds resulted.

LINCOLN COUNTY
SHELBY LAKES, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

STATE LAWS AND REGULATIONS: (CONTINUED)

Statement Filed Listing Property Seized - Investigation Of Utilization Of Proceeds

According to KRS 218A.440(1) each law enforcement agency seizing money or property pursuant to KRS 218A.415 shall, at the close of each fiscal year, file a statement with the Auditor of Public Accounts, and with the Secretary of Justice containing, a detailed listing of all money and property seized in that fiscal year and the disposition thereof.

As of June 10, 2005, this statement had not been filed with the Auditor of Public Accounts or the Secretary of Justice. We recommend the Sheriff's office complete the statement and file it with the Auditor of Public Accounts and with the Secretary of Justice in accordance with KRS 218A.440(1).

Sheriff's Response: Will comply.

The Sheriff Should Stay Within His Approved Budget For Expenditures

The Sheriff over expended the annual budget by approximately \$1,500. We would recommend that the Sheriff take these budget overtures to the Fiscal Court for approval, however, the Sheriff should realize that if the Fiscal Court does not approve the budget amendments, the Sheriff will be personally responsible for the excess expenditures. We also recommend that in the future the Sheriff monitor expenditures closely, and if the budget needs to be amended, do so before spending public funds.

Sheriff's Response: The final settlement will be approved by the Fiscal Court on June 14, 2005.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control such as functions prescribed by statutes and regulations, and by budgetary constraints. Due to limited staff, a proper segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is not a material weakness.

We recommend the Sheriff establish a proper segregation of duties over operations. In order to offset this internal control weakness, the Sheriff should assign duties to another deputy/employee. Duties that should be segregated include preparing deposits, reconciling bank statements, opening mail, and preparing and distributing checks. The other deputy/employee should document performing these duties by initialing and dating such documentation.

Sheriff's Response: Insufficient staff to comply.

LINCOLN COUNTY
SHELBY LAKES, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

Sheriff's Response: Not enough staff to comply.

This comment has been repeated in the current year.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



The Honorable Ronald W. Gilbert, Lincoln County Judge/Executive
Honorable Shelby Lakes, Lincoln County Sheriff
Members of the Lincoln County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Lincoln County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated June 10, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lincoln County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Report On Internal Control Over Financial Reporting And On Compliance
And Other Matters Based On An Audit Of The Financial Statement
Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lincoln County Sheriff's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Present A Final Settlement To The Fiscal Court
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Statement Filed Listing Property Seized - Investigation Of Utilization Of Proceeds
- The Sheriff Should Stay Within His Approved Budget For Expenditures

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Moore Stephens Potter, LLP

Moore Stephens Potter, LLP

Audit fieldwork completed -
June 10, 2005



